

Message Text

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FOLLOWING REPEAT STATE 254120 ACTION LONDON INFO EC BRUSSELS TOKYO
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ROME THE HAGUE COPENHAGEN 24 OCT 75

QUOTE

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SUBJECT: IFC CAPITAL REPLENISHMENT

REF: LONDON 16174

1. IN VIEW OF HMG'S LACK OF ENTHUSIASM ABOUT PROPOSED IFC
CAPITAL REPLENISHMENT, WE WISH TO PROVIDE INFORMATION AND
POINTS OF VIEW THAT CAN BE USED WHEN YOU FOLLOW
UP ON THE IFC MISSION CONVERSATIONS WITH HMG. WE BELIEVE
THAT WHILE THE PRIMARY PURPOSE OF IFC IS NOT THE MSA'S,
THEY HAVE BENEFITED FROM IFC ACTIVITIES IN THE PAST AND
WILL BENEFIT TO A GREATER DEGREE IN THE FUTURE.

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2. SECONDLY, WE CANNOT ACCEPT THE VIEW THAT A DEVELOPMENT

INSTITUTION SHOULD BE JUDGED ONLY IN TERMS OF ITS IMPACT ON THE MSA'S. THAT WOULD PRESUPPOSE THAT MOST LENDING FROM THE IBRD OR THE REGULAR BANKS OTHER THAN FROM HIGHLY CONCESSIONAL FUNDS HAS NO PURPOSE. IT WOULD, IF CARRIED TO ITS LOGICAL CONCLUSION, LEAVE THE LDC'S NOT CLASSIFIED AS MSA'S ENTIRELY DEPENDENT ON COMMERCIAL CREDIT AND PRIVATE INVESTMENT.

3. WHILE MOST OF IFC PAST ACTIVITY HAS OCCURRED IN NON-MSA LDC'S, IFC HAS A LONG HISTORY OF SUCCESSFUL PROJECTS IN MSA'S, SUCH AS INDIA (11), PAKISTAN (9), KENYA (3), AND ETHIOPIA (3). IFC HAS MADE COMMITMENTS OF OVER 153 MILLION DOLLARS IN 13 MSA'S. MUCH OF THIS ACTIVITY OCCURRED IN THE LATE 60'S BEFORE OTHER INTERNATIONAL DONORS BECAME MSA-ORIENTED.

4. ONE KEY PURPOSE OF REPLENISHMENT IS TO GIVE IFC SUFFICIENT RESOURCES TO EXPAND ITS ROLE IN THE PROMOTION OF SMALLER, MORE VARIED PROJECTS IN THE PRIVATE SECTOR IN BOTH COUNTRIES AND SECTORS THAT HISTORICALLY HAVE HAD POOR ACCESS TO CREDIT ON REASONABLE TERMS. THIS TYPE OF ACTIVITY IS MORE EXPENSIVE AND TIME-CONSUMING THAN THE BIGGER PROJECTS AND REQUIRES MORE INCOME GENERATED FROM A LARGER CAPITAL BASE TO SUPPORT IT.

5. IFC ENVISIONS GREATER PARTICIPATION IN PROMOTIONAL VENTURES, MORE ASSISTANCE TO SMALL-SCALE INDUSTRIES, ADDITIONAL TECHNICAL ASSISTANCE TO BOTH THE PRIVATE AND PUBLIC SECTOR IN DEVELOPING PROJECTS, AND LARGER EQUITY EXPOSURE TO MAKE UP FOR LACK OF DOMESTIC RISK CAPITAL IN MSA'S. IFC ABILITY TO PROVIDE THESE SERVICES TO MSA'S WILL BE ENHANCED BY CAPITAL REPLENISHMENT.

6. IFC WELL AWARE OF MSA INABILITY TO MOBILIZE PRIVATE CAPITAL. ONE OF IFC OBJECTIVES IN EXPANDED PROGRAM IS TO ASSIST MSA'S IN ATTRACTING PRIVATE CAPITAL THROUGH A) LARGER IFC EQUITY; B) LARGER IFC ROLE IN CAPITAL MARKETS DEVELOPMENT; C) IFC EXAMINATION OF LOCAL BOTTLENECKS TO PRIVATE SECTOR DEVELOPMENT; AND D) IFC ABILITY TO ATTRACT FOREIGN CAPITAL TO "CO-FINANCING" PROJECTS DUE TO THEIR EXPERIENCE AND REPUTATION. GIVEN THE CONTINUING LIMITED OFFICIAL USE

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GAP BETWEEN AID OF VARIOUS KINDS AND MSA CAPITAL REQUIREMENTS WHICH ARE GREATER THAN IN OTHER LDC'S, MSA COUNTRIES SHOULD TRY TO STIMULATE PRIVATE SECTOR THROUGH SUCH INTERNATIONAL MECHANISMS AS IFC. THERE IS SOME EVIDENCE THAT THEY ARE DOING THIS. FOR EXAMPLE, RECENT IFC CONTACTS WITH INDIA, BOTH IN CONNECTION WITH THE CAPITAL EXPANSION AND ROUTINE ACTIVITIES, HAVE BEEN FAVORABLE.

7. IN TERMS OF INCOME LEVELS, THE MSA LIST IS ONLY A PARTIALLY RELIABLE GUIDE TO THE MOST NEEDY AID RECIPIENTS. IT CONTAINS COUNTRIES SUCH AS GHANA AND THE IVORY COAST WITH INCOMES OF ABOUT THREE-HUNDRED-FIFTY DOLLARS PER CAPITA WHILE OMITTING INDONESIA, NEPAL, BOLIVIA, THE PHILIPPINES AND TANZANIA WITH ANNUAL PER CAPITA INCOMES OF SEVENTY-FIVE TO TWO-HUNDRED DOLLARS. THE IFC

PORTFOLIO OF COMMITMENTS IN THESE FIVE COUNTRIES IS 142 MILLION DOLLARS. IFC COMMITMENTS IN COUNTRIES OF UNDER 275 DOLLARS IER CAPITA INCOME REPRESENT 25 PER CENT OF ITS PORTFOLIO.

8. IFC HAS BEEN VERY ACTIVE IN THE MEDITERRANEAN AREA, PARTICULARLY IN YUGOSLAVIA, TURKEY, GREECE, SPAIN, ETC.,

9. OTHER POSTS MAY DRAW ON THIS INFORMATION AS APPROPRIATE. KISSINGER

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